

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Clarence Township	County Calhoun
Audit Date 3/31/04	Opinion Date 9/17/04	Date Accountant Report Submitted to State: 11/3/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

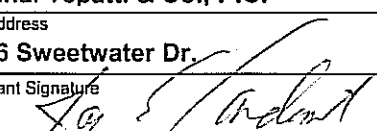
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Cardinal Tepatti & Co., P.C.			
Street Address 11966 Sweetwater Dr.	City Grand Ledge	State MI	ZIP 48837
Accountant Signature 		Date 11/3/04	

CLARENCE TOWNSHIP

CALHOUN COUNTY

AUDIT REPORT

FOR THE YEAR ENDED MARCH 31, 2004

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CARDINAL TEPATTI & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

Honorable Board Members
Clarence Township
27052 R Drive North
Albion, MI 49224

We have audited the accompanying general purpose financial statements of Clarence Township, Albion, Michigan, and the combining, individual fund, and account group financial statements and schedules of the Township as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Clarence Township, Albion, Michigan, as of March 31, 2004, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining, individual fund, and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of Clarence Township, Albion, Michigan, as of March 31, 2004, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Randall L. Tepatti, *Registered Representative*

Securities offered through H.D. Vest Investment SecuritiesSM, Inc., Member SIPC. Advisory Services offered through H. D. Vest
Advisory ServicesSM, Non-bank subsidiaries of Wells, Fargo & Company
6333 North State Highway 161, Suite 400, Irving, Texas 75038 (972) 870-6000

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2004, on our consideration of Clarence Township, Albion, Michigan internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole and on the combining, individual fund, and account group financial statements. The accompanying information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of Clarence Township, Albion, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose, combining, individual fund, and account group financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

Cardinal Trepatti & Co. P.C.

Grand Ledge, Michigan
September 17, 2004

CLARENCE TOWNSHIP
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004

	<u>Governmental Fund Types</u>		<u>Fund Types</u>		<u>Account Groups</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Capital Improve.</u>	<u>Proprietary Enterprise</u>	<u>Fiduciary Trust and Agency</u>	<u>General Fixed Assets</u>	
ASSETS						
Cash and Cash Equivalents	\$ 14,306	\$	\$ 123,965	\$ 50,000	\$	\$ 188,271
Investments - At Cost	95,570	4,085	47,927	50,361		197,943
Receivables:						
Taxes	6,760					6,760
Accounts	118		246,933	103,985		351,036
Due From Other Funds			41,246	11,350		52,596
Due From County			334,536			334,536
Prepaid Expenses			3,247			3,247
Restricted Assets:						
Investments - At Cost			71,073			71,073
Land & Buildings			118,712		161,000	279,712
Machinery & Equipment			77,746		82,768	160,514
Sewer System			2,459,993			2,459,993
Accumulated Depreciation			(1,283,820)			(1,283,820)
Total Assets	\$ 116,754	\$ 4,085	\$ 2,241,558	\$ 215,696	\$ 243,768	\$ 2,821,861
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts Payable	\$ 13,288	\$	\$ 35,191	\$	\$	\$ 48,479
Bank Overdrafts Payable				119,266		119,266
Accrued Interest			6,187			6,187
Deferred Revenues	6,760		246,933			253,693
Current Portion-Long Term Debt			35,000			35,000
Bonds Payable			460,000			460,000
Due to Other Funds	11,350			41,246		52,596
Total Liabilities	\$ 31,398	\$ -0-	\$ 783,311	\$ 160,512	\$ -0-	\$ 975,221
Fund Equity						
Contributed Capital net of accumulated depreciation of \$763,697	\$	\$	\$ 839,700	\$	\$	\$ 839,700
Investment in General Fixed Assets					243,768	243,768
Retained Earnings			618,547			618,547
Fund Balance - Unreserved	85,356	4,085		55,184		144,625
Total Fund Equity	\$ 85,356	\$ 4,085	\$ 1,458,247	\$ 55,184	\$ 243,768	\$ 1,846,640
Total Liabilities and Fund Equity	\$ 116,754	\$ 4,085	\$ 2,241,558	\$ 215,696	\$ 243,768	\$ 2,821,861

The notes to the financial statements are an integral part of this statement

CLARENCE TOWNSHIP
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2004

	<u>General</u>	<u>Capital Improvement</u>	<u>Total (Memo. Only)</u>
REVENUES			
Taxes	\$ 81,089	\$	\$ 81,089
State Grants	140,029		140,029
Licenses & Permits	20,502		20,502
Charges for Services	5,699		5,699
Interest & Rentals	4,016	32	4,048
Other Revenue	<u>2,089</u>		<u>2,089</u>
Total Revenues	\$ <u>253,424</u>	\$ <u>32</u>	\$ <u>253,456</u>
EXPENDITURES			
Current:			
Legislative	\$ 3,891	\$	\$ 3,891
General Government	183,332		183,332
Public Safety	76,816		76,816
Public Works	-0-	10,772	10,772
Capital Outlay	<u>3,197</u>		<u>3,197</u>
Total Expenditures	\$ <u>267,236</u>	\$ <u>10,772</u>	\$ <u>278,008</u>
Excess of Revenues Over (Under) Expenditures	\$ <u>(13,812)</u>	\$ <u>(10,740)</u>	\$ <u>(24,552)</u>
Other Financing Sources (Uses)			
Operating Transfers In	\$ 28	\$ 9,000	\$ 9,028
Operating Transfers Out	<u>(9,000)</u>		<u>(9,000)</u>
Total Other Financing Sources (Uses)	\$ <u>(8,972)</u>	\$ <u>9,000</u>	\$ <u>28</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (22,784)	\$ (1,740)	\$ (24,524)
Fund Balance - April 1	<u>108,140</u>	<u>5,825</u>	<u>113,965</u>
Fund Balance - March 31	<u>\$ 85,356</u>	<u>\$ 4,085</u>	<u>\$ 89,441</u>

The notes to the financial statements are an integral part of this statement

CLARENCE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL -GENERAL FUND
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavor)
REVENUES			
Taxes	\$ 78,475	\$ 81,089	\$ 2,614
State Grants	153,000	140,029	(12,971)
Licenses & Permits	17,900	20,502	2,602
Charges for Services	5,000	5,699	699
Interest and Rentals	3,000	4,016	1,016
Other Revenue	<u>2,270</u>	<u>2,089</u>	<u>(181)</u>
Total Revenues	\$ <u>259,645</u>	\$ <u>253,424</u>	\$ <u>(6,221)</u>
EXPENDITURES			
Current:			
Legislative	\$ 3,885	\$ 3,891	\$ (6)
General Government	177,195	183,332	(6,137)
Public Safety	74,885	76,816	(1,931)
Capital Outlay	<u>5,000</u>	<u>3,197</u>	<u>1,803</u>
Total Expenditures	\$ <u>260,965</u>	\$ <u>267,236</u>	\$ <u>(6,271)</u>
Excess of Revenues Over (Under) Expenditures	\$ <u>(1,320)</u>	\$ <u>(13,812)</u>	\$ <u>(12,492)</u>
Other Financing Sources (Uses)			
Operating Transfers In	\$ 600	\$ 28	\$ (572)
Operating Transfers Out	<u>-0-</u>	<u>(9,000)</u>	<u>(9,000)</u>
Total Other Financing Sources (Uses)	\$ <u>600</u>	\$ <u>(8,972)</u>	\$ <u>(9,572)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ <u><u>(720)</u></u>	\$ <u>(22,784)</u>	\$ <u><u>(22,064)</u></u>
Fund Balance - April 1		<u>108,140</u>	
Fund Balance - March 31		<u>\$ 85,356</u>	

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Proprietary Fund Types</u>
	<u>Enterprise</u>
Operating Revenues:	
Charges for Services	\$ 115,831
Other Revenue	<u>9</u>
Total Operating Revenues	\$ <u>115,840</u>
Operating Expenses:	
Personal Services	\$ 9,196
Contractual Services	48,786
Supplies	1,882
Maintenance	5,630
Telephone	3,885
Utilities	13,445
Insurance	6,864
Transportation	1,756
Depreciation	50,741
Miscellaneous	<u>378</u>
Total Operating Expenses	\$ <u>142,563</u>
Operating Income	\$ <u>(26,723)</u>
Non-operating Revenues (Expenses):	
Interest Revenue	\$ 16,364
Interest Expense & Fiscal Charges	(25,875)
Hook-up Fees	67,621
Legal Settlement	<u>330,000</u>
Total Non-operating Revenues (Expenses)	\$ <u>388,110</u>
Net Income (Loss)	\$ 361,387
Depreciation Transferred to Contributions	<u>32,109</u>
Increase (Decrease) in Retained Earnings	\$ 393,496
Retained Earnings - April 1	<u>255,051</u>
Retained Earnings - March 31	\$ <u><u>648,547</u></u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF CASH FLOWS --
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Proprietary Fund Types</u>
	<u>Enterprise</u>
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 108,394
Cash Payments for Goods & Services	(82,920)
Cash Payments to Employees	<u>(9,196)</u>
Net Cash Provided by Operating Activities	\$ <u>16,278</u>
Cash Flows From Capital & Related Financing Activities:	
Proceeds From Hook-up Fees	\$ 36,895
Principal Paid on Revenue Bonds and Notes Payable	(30,000)
Interest Paid on Revenue Bonds and Notes Payable	<u>(26,250)</u>
Net Cash Used for Capital & Related Financial activities	\$ <u>(19,355)</u>
Cash Flows From Investing Activities	
Purchase of Equipment	(2,000)
Sale of Investments	\$ (10,370)
Interest on Investments	<u>17,466</u>
Net Cash Provided by Investing Activities	\$ <u>5,096</u>
Net Increase (Decrease) in Cash	\$ 2019
Cash - April 1	<u>121,946</u>
Cash - March 31	<u><u>\$ 123,965</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ <u>(26,723)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash provided by Operating Activities	
Depreciation	\$ 50,741
(Increase) Decrease in Due From Other Funds	(3,095)
(Increase) Decrease in Prepaid Expenses	(247)
Increase (Decrease) in Accounts Payable	(4,023)
Increase (Decrease) in Accrued Interest	<u>(375)</u>
Total Adjustments	\$ <u>43,001</u>
Net Cash Provided by Operating Activities	<u><u>\$ 16,278</u></u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - TRUST FUND
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Fiduciary Fund Types</u>	<u>Non- Expendable Trust</u>
Non-operating Revenues (Expenditures):		
Perpetual Care Fees	\$ 550	
Interest Revenue		<u>28</u>
Net Income (Loss)	\$ 578	
Other Financing Sources (Uses)		
Operating Transfers Out		<u>(28)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 550	
Fund Balance - April 1		<u>54,634</u>
Fund Balance - March 31	\$ <u>55,184</u>	

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF CASH FLOWS –
TRUST FUND
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	Fiduciary Fund Types Non-Expendable <u>Trust</u>
Cash Flows From Non-Capital Financing Activities:	
Operating Transfers to Other Funds	\$ <u>(28)</u>
Cash Flows From Capital and Related Financing Activities:	
Proceeds From Cemetery Lot Sales	\$ <u>550</u>
Cash Flows From Investing Activities:	
Interest on Investments	\$ 28
Purchase of Investments	<u>(550)</u>
Net Cash Provided by Investing Activities	\$ <u>(522)</u>
Net Increase (Decrease) in Cash	\$ -0-
Cash - April 1	<u>50,000</u>
Cash - March 31	\$ <u><u>50,000</u></u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clarence Township, Albion, Michigan conform to generally accepted accounting principles. The following is a summary of such significant policies:

Principles Determining Scope of Reporting Entity

The financial statements of the Township consist only of the funds and account groups of the Township. The Township has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Township. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenues.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Improvement Funds - These funds are used to account for financial resources to be used for the construction or improvement of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds).

Fiduciary Funds

These funds are used to account for assets held in trust or as an agent for others. The Current Tax Collection Fund and Cemetery Perpetual Care Fund are the Township's only fiduciary funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Account Groups

General Fixed Assets Account Group - This Account Group presents the fixed assets of the local unit utilized in its general operations (nonproprietary fixed assets).

Total Column On Combined Statements - Overview

The total column on the Combined Statements - Overview is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Basis of Accounting

The accrual basis of accounting is used by the Enterprise Funds and the non-expendable trust fund. All governmental funds utilize the modified accrual basis of accounting. Modification in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31, and the related property taxes become a lien the following year. These taxes are due on September 30, with the final collection date of February 28, before they are added to the County tax rolls.

- b. Interest income on special assessments receivable is not accrued until its due date.
- c. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. Normally, expenditures are not divided between years by the recording of prepaid expenses.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Budget Policies

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to the annual meeting the last week of March, the Supervisor submits to the Township Board a proposed operating budget for the calendar year beginning the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. During the annual meeting, a public hearing is conducted to obtain taxpayer comments. After the public hearing, the budget is legally enacted through passage of a resolution.
3. Any revision of the budget must be approved by the Township Board.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
5. Budgets for General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. All unexpended appropriations lapse at the year-end. Encumbrances are not employed.
6. Supplemental appropriations or authorized budget amendments were approved as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Amount</u>	<u>Purpose</u>	<u>Amount</u>
General	Increase funding for:		Decrease funding for:	
	Salaries	\$ 1,747	Fire Protection	\$ 1,000
	Township Assessor Expenses	100	Contingency	9,155
	Township Clerk Expenses	1,390		
	Township Hall Expenses	2,525		
	Township Cemetery Expenses	2,870		
	Recycling Center	1,158		
	Insurance	<u>1,095</u>		
Total General Fund Increases		\$ <u>10,885</u>	Total General Fund Decreases	\$ <u>10,155</u>

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected not to be collectible.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers or resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by Township management.

Fixed Assets

General fixed assets are recorded as expenditures in the applicable fund. General fixed assets are recorded as expenditures in the applicable funds at the time of purchase and are accounted for in the General Fixed Asset Group of Accounts. All purchased fixed assets are valued at cost at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. No depreciation has been provided on general fixed assets.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Equity

The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period. Unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

Unreserved retained earnings for Proprietary funds represent the net assets available for future operations and distributions. Reserved retained earnings for Proprietary funds represent the net assets that have been legally identified for specific purposes.

Contributed capital consists of federal and state grants and contributions from customers externally restricted for utilization in the construction of property, plant and equipment.

NOTE 2 - PROPERTY TAXES RECEIVABLE

The Township property tax is levied on each December 1, on the State taxable valuation of property located in the Township as of the preceding December 31st.

The Township 2003 ad valorem tax is levied and collectible on December 1, 2003. It is the Township's policy to recognize revenue from this year's tax levy.

The 2003 State Equalized Valuation of the Township totaled \$78,979,490 and the State Taxable Valuation was \$55,107,737, on which ad valorem taxes levied consisted of .96050 mills and raising \$52,931 for Township operations.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (Cont'd)

During the year ended March 31, 2004, the Township incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund			
Legislative	\$ 3,885	\$ 3,891	\$ (6)
General Government:			
Supervisor	9,372	9,399	(27)
Clerk	37,340	47,370	(10,030)
Treasurer	14,780	14,838	(58)
Public Safety:			0
Construction Code Enforcement	21,085	24,644	(3,559)
Operating Transfers Out	-0-	9,000	(9,000)

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year-end are as follows:

<u>Deposits</u>	
Insured (FDIC)	\$ 200,000
Uninsured	<u>6,373</u>
Total	<u>\$ 206,373</u>

At year-end, the balance sheet carrying amount of deposits was \$188,271

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Cont'd)

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the Township or its agent in the Township's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Township's name).

Investment Type

Risk-Categorized	(1)	(2)	(3)	Carrying Amount	Market Value
Treasury Portfolio		<u>\$269,016</u>		<u>\$269,016</u>	<u>\$269,016</u>

The treasury portfolio of the Township is in an investment pool managed by a bank trust department.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance <u>04/01/03</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>03/31/04</u>
Land & Building	\$161,000	\$ -0-	\$ -0-	\$161,000
Equipment	<u>82,768</u>	<u>-0-</u>	<u>-0-</u>	<u>82,768</u>
Total	<u>\$243,768</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$243,768</u>

A summary of proprietary fund type property, plant and equipment at March 31, 2004, as follows:

	Enterprise <u>Fund</u>	Depreciable <u>Life-Years</u>
Land	\$ 118,712	
Sewer System	2,459,993	50
Equipment	<u>77,746</u>	<u>10</u>
Total Cost	\$ 2,656,451	
Less: Accumulated Depreciation	<u>1,283,820</u>	
	<u>\$ 1,372,631</u>	

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Sewer	\$ 41,246	Curr. Tax Coll.	\$ 41,246
Curr. Tax Coll.	<u>11,350</u>	General	<u>11,350</u>
Total	<u>\$ 52,596</u>		<u>\$ 52,596</u>

NOTE 7 - RESTRICTED ASSETS

Certain proprietary funds report restricted assets for cash deposited in bank accounts legally restricted for specified uses such as the payment of fiscal fees on long-term debt or mortgage loans.

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - RISK FINANCING

The Township is exposed to various risks of loss related to theft of, damage to, and distribution of assets; errors and omissions; and injuries to employees. The Township purchases insurance from independent third parties for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

NOTE 9 - LONG-TERM DEBT

Revenue Bonds:

Sewage Revenue Bonds were issued November 23, 1977, in the amount of \$996,000. The Township pledged its full faith and credit for payment. These bonds are payable over 40 years with interest at 5.0%.

During the year ended March 31, 2004, the following changes occurred in liabilities reported in the enterprise funds:

	<u>Balance</u> <u>03/31/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>03/31/04</u>
Revenue Bonds	<u>\$ 525,000</u>	<u>- 0 -</u>	<u>\$ 30,000</u>	<u>\$ 495,000</u>

NOTE 9 - LONG-TERM DEBT (Cont'd)

The annual debt services requirements to maturity, including principal and interest for the long-term debt as of March 31, 2004 is as follows:

<u>Year Ended</u> <u>March 31,</u>	<u>Revenue</u> <u>Bonds</u>
2005	\$ 59,750
2006	58,000
2007	56,250
2008	54,500
2009	52,750
Thereafter	<u>392,000</u>
	<u>\$ 673,250</u>

CLARENCE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - CONTRIBUTED CAPITAL

Depreciation recognized on assets acquired or constructed with contribution capital externally restricted for capital acquisitions is being closed to the appropriate contributed capital accounts. Contributed capital at March 31, 2004, is summarized below:

Contributed Capital:	
Federal Government	\$1,048,075
State Government	534,307
Others	<u>21,016</u>
	\$1,603,398
Less: Accumulated Depreciation	<u>763,698</u>
	<u>\$ 839,700</u>

NOTE 11- SEWER SETTLEMENT

Clarence Township has reached an agreement with The Calhoun County Board of Public Works, effective as of March 18, 2004, to repay the Eastern Calhoun County Sanitary Sewer fund \$330,000 which was borrowed from the fund in prior years. \$165,000 will be paid by April 30, 2004 and remaining \$165,000 plus interest totaling \$2,750 will be paid by August 31, 2004.

NOTE 12- NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Township is required to implement this standard for the fiscal year ending March 31, 2005. The Township has not yet determined the full impact that the adoption of GASB Statement 34 will have on the financial statements.

CLARENCE TOWNSHIP
COMBINING BALANCE SHEET
ALL CAPITAL IMPROVEMENTS FUNDS
MARCH 31, 2004

	<u>Equipment Fund</u>	<u>Road Fund I</u>	<u>Totals</u>
ASSETS			
Investments - at Cost	\$ <u>2,897</u>	\$ <u>1,188</u>	\$ <u>4,085</u>
 Total Assets	 \$ <u><u>2,897</u></u>	 \$ <u><u>1,188</u></u>	 \$ <u><u>4,085</u></u>
 LIABILITIES AND FUND BALANCES			
Fund Balance - Unreserved	\$ <u>2,897</u>	\$ <u>1,188</u>	\$ <u>4,085</u>
 Total Liabilities and Fund Balances	 \$ <u><u>2,897</u></u>	 \$ <u><u>1,188</u></u>	 \$ <u><u>4,085</u></u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL CAPITAL IMPROVEMENT FUNDS
FOR THE YEAR ENDED MARCH 31, 2004

	Equipment Fund	Road Fund I	Totals
Revenues:			
Interest	\$ 27	\$ 5	\$ 32
Total Revenues	\$ 27	\$ 5	\$ 32
Expenditures:			
Public Works	\$ 1,895	\$ 8,877	\$ 10,772
Total Expenditures	\$ 1,895	\$ 8,877	\$ 10,772
Excess of Revenues Over (Under) Expenditures	\$ (1,868)	\$ (8,872)	\$ (10,740)
Other Financing Sources (Uses)			
Operating Transfers In	\$	\$ 9,000	\$ 9,000
Operating Transfers Out	_____	_____	-0-
Total Other Financing Sources (Uses)	\$ -0-	\$ 9,000	\$ 9,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,868)	\$ 128	\$ (1,740)
Fund Balances - April 1	4,765	1,060	5,825
Fund Balances - March 31	\$ 2,897	\$ 1,188	\$ 4,085

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
MARCH 31, 2004

	<u>Trust Fund</u> <u>Cemetery</u> <u>Perpetual Care</u>	<u>Agency Fund</u> <u>Current Tax</u> <u>Collection</u>	<u>Totals</u>
ASSETS			
Cash and Cash Equivalents	\$ 50,000	\$	\$ 50,000
Investments	5,184	45,177	50,361
Accounts Receivable		103,985	103,985
Due From Other Funds	<u> </u>	<u>11,350</u>	<u>11,350</u>
 Total Assets	 \$ <u>55,184</u>	 \$ <u>160,512</u>	 \$ <u>215,696</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Bank Overdrafts Payable	\$	\$ 119,266	\$ 119,266
Due to Other Funds	<u> </u>	<u>41,246</u>	<u>41,246</u>
 Total Liabilities	 \$ -0-	 \$ 160,512	 \$ 160,512
 Fund Balance - Unreserved	 <u>55,184</u>	 <u>-0-</u>	 <u>55,184</u>
Total Liabilities and Fund Balances	\$ <u>55,184</u>	\$ <u>160,512</u>	\$ <u>215,696</u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	CURRENT TAX COLLECTION FUND			
	Balance 4/1/03	Additions	Deletions	Balance 3/31/04
ASSETS				
Cash and Cash Equivalents	\$ 14,490	\$ 1,818,234	\$ 2,018,742	\$ (186,018)
Investments	<u>43,265</u>	<u>1,912</u>		<u>45,177</u>
Total Assets	<u>\$ 57,755</u>	<u>\$ 1,820,146</u>	<u>\$ 2,018,742</u>	<u>\$ (140,841)</u>
LIABILITIES				
Due to General Fund	\$ 17,354	\$ 68,877	\$ 97,581	\$ (11,350)
Due to Sewer Fund	38,151	41,081	37,986	41,246
Undistributed Taxes	2,250	1,706,398	1,879,385	(170,737)
Refunds	<u>-0-</u>	<u>3,790</u>	<u>3,790</u>	<u>-0-</u>
Total Liabilities	<u>\$ 57,755</u>	<u>\$ 1,820,146</u>	<u>\$ 2,018,742</u>	<u>\$ (140,841)</u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavor)</u>
Revenues:			
Taxes:			
Current Taxes	\$ 52,255	\$ 56,839	\$ 4,584
Administrative Fee	23,500	21,868	(1,632)
Penalties and Interest	720	355	(365)
Special Assessments	2,000	2,027	27
	<u>\$ 78,475</u>	<u>\$ 81,089</u>	<u>\$ 2,614</u>
State Grants:			
State Shared Revenue	<u>\$ 153,000</u>	<u>\$ 140,029</u>	<u>\$ (12,971)</u>
Licenses and Permits:			
Construction Permits	\$ 16,600	\$ 19,202	\$ 2,602
Cable TV Franchise Fees	1,300	1,300	-0-
	<u>\$ 17,900</u>	<u>\$ 20,502</u>	<u>\$ 2,602</u>
Charges for Services:			
Cemetery Grave Openings	\$ 3,500	\$ 5,149	\$ 1,649
Cemetery Lot Sales	1,500	550	(950)
	<u>\$ 5,000</u>	<u>\$ 5,699</u>	<u>\$ 699</u>
Interest and Rentals:			
Interest	\$ 500	\$ 316	\$ (184)
Hall Rental	2,500	3,700	1,200
	<u>\$ 3,000</u>	<u>\$ 4,016</u>	<u>\$ 1,016</u>
Other Revenue	<u>\$ 2,270</u>	<u>\$ 2,089</u>	<u>\$ (181)</u>
Total Revenues	<u>\$ 259,645</u>	<u>\$ 253,424</u>	<u>\$ (6,221)</u>
Expenditures:			
Current:			
Legislative:			
Salaries	\$ 3,885	\$ 3,891	\$ (6)
General Government:			
Supervisor:			
Salary	\$ 9,152	\$ 9,168	\$ (16)
Expenses & Supplies	220	231	(11)
	<u>\$ 9,372</u>	<u>\$ 9,399</u>	<u>\$ (27)</u>
Election:			
Supplies	\$ 500	\$ 250	\$ 250
	<u>\$ 500</u>	<u>\$ 250</u>	<u>\$ 250</u>

The notes to financial statements are an integral of this statement.

CLARENCE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavor)</u>
General Government (cont'd):			
Assessor:			
Salaries	\$ 15,560	\$ 15,598	\$ (38)
Expenses & Supplies	1,050	986	64
	<u>\$ 16,610</u>	<u>\$ 16,584</u>	<u>\$ 26</u>
Clerk:			
Salaries	\$ 12,550	\$ 12,394	\$ 156
Postage	3,200	3,361	(161)
Publications & Supplies	6,700	6,376	324
Professional	9,700	18,678	(8,978)
Dues & Workshops	1,560	1,540	20
Sports Programs	1,500	1,000	500
Miscellaneous	2,130	4,021	(1,891)
	<u>\$ 37,340</u>	<u>\$ 47,370</u>	<u>\$ (10,030)</u>
Board of Review:			
Salaries	\$ 1,500	\$ 850	\$ 650
Treasurer:			
Salaries	\$ 14,080	\$ 14,064	\$ 16
Supplies & Expenses	700	774	(74)
	<u>\$ 14,780</u>	<u>\$ 14,838</u>	<u>\$ (58)</u>
Township Hall:			
Salaries	\$ 28,260	\$ 27,969	\$ 291
Telephone	2,510	2,526	(16)
Office & Maint. Supplies	900	893	7
Janitorial & Lawn Care	3,500	3,518	(18)
Repairs & Maintenance	3,500	3,482	18
Utilities	4,950	4,474	476
Miscellaneous	2,835	2,796	39
	<u>\$ 46,455</u>	<u>\$ 45,658</u>	<u>\$ 797</u>
Miscellaneous Expenses:			
Road Improvements	\$ -0-	\$ 552	\$ (552)
Drain-at-Large	10,000	7,408	2,592
Street Lighting	2,000	1,948	52
Locke's Recycling	3,158	3,158	0
Insurance	9,085	8,943	142
	<u>\$ 24,243</u>	<u>\$ 22,009</u>	<u>\$ 2,234</u>
Cemetery:			
Sexton Salary	\$ 4,525	\$ 4,521	\$ 4
Lawn Care	12,320	12,312	8
Grave Opening & Closing	4,910	4,909	1
Maintenance	4,640	4,632	8
	<u>\$ 26,395</u>	<u>\$ 26,374</u>	<u>\$ 21</u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavor)</u>
Public Safety:			
Fire Protection:			
Fixed Cost	\$ 21,200	\$ 17,612	\$ 3,588
Runs	30,000	33,000	(3,000)
	<u>\$ 51,200</u>	<u>\$ 50,612</u>	<u>\$ 588</u>
State Construction Code			
Enforcement:			
Salaries & Fees	\$ 18,985	\$ 22,562	\$ (3,577)
Conferences and Workshops	1,000	1,170	(170)
Expenses	1,100	912	188
	<u>\$ 21,085</u>	<u>\$ 24,644</u>	<u>\$ (3,559)</u>
Planning Commission:			
Salaries	\$ 2,100	\$ 1,485	\$ 615
Professional	300		300
Expenses	200	75	125
	<u>\$ 2,600</u>	<u>\$ 1,560</u>	<u>\$ 1,040</u>
Capital Outlay	<u>\$ 5,000</u>	<u>\$ 3,197</u>	<u>\$ 1,803</u>
Total Expenditures	<u>\$ 260,965</u>	<u>\$ 267,236</u>	<u>\$ (6,271)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (1,320)</u>	<u>\$ (13,812)</u>	<u>\$ (12,492)</u>
Other Financing Sources (Uses):			
Operating Transfers In	\$ 600	\$ 28	\$ (572)
Operating Transfers Out	<u>-0-</u>	<u>(9,000)</u>	<u>(9,000)</u>
Total Other Financing Sources (Uses)	<u>\$ 600</u>	<u>\$ (8,972)</u>	<u>\$ (9,572)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>\$ (720)</u>	<u>\$ (22,784)</u>	<u>\$ (22,064)</u>
Fund Balances - April 1		<u>108,140</u>	
Fund Balances - March 31		<u>\$ 85,356</u>	

CLARENCE TOWNSHIP
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
SEWER FUND
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Charges for Services	\$ 115,831	\$ 109,738
Other Revenue	<u>9</u>	<u>-0-</u>
Total Operating Revenues	\$ <u>115,840</u>	\$ <u>109,738</u>
Operating Expenses:		
Personal Services	\$ 9,196	\$ 8,130
Contractual Services	48,786	48,559
Supplies	1,882	1,958
Maintenance	5,630	4,387
Telephone	3,885	3,928
Utilities	13,445	13,279
Insurance	6,864	6,117
Transportation	1,756	1,397
Depreciation	50,741	52,984
Miscellaneous	<u>378</u>	<u>125</u>
Total Operating Expenses	\$ <u>142,563</u>	\$ <u>140,864</u>
Operating Income (Loss)	\$ <u>(26,723)</u>	\$ <u>(31,126)</u>
Non-operating Revenues (Expenses)		
Interest Revenue	\$ 16,364	\$ 19,511
Interest Expense & Fiscal Charges	(25,875)	(27,375)
Tap Fees	37,621	35,835
Legal Settlement	<u>330,000</u>	<u></u>
Total Non-Operating Revenues (Exp.)	\$ <u>358,110</u>	\$ <u>27,971</u>
Net Income (Loss)	\$ 331,387	\$ (3,155)
Depreciation Transferred to Contributions	<u>32,109</u>	<u>32,109</u>
Increase (Decrease) in Retained Earnings	\$ 363,496	\$ 28,954
Retained Earnings - April 1	<u>255,051</u>	<u>226,097</u>
Retained Earnings - March 31	<u>\$ 618,547</u>	<u>\$ 255,051</u>

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP
SCHEDULE OF INDEBTEDNESS
MARCH 31, 2004

Eastern Calhoun County Sanitary System #4
Township of Clarence - Bonds

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity Amounts</u>	<u>Outstanding at 3/31/04</u>
11/23/77	\$996,000	5.0%	1/1/05-09	35 5,000	175,000
			1/1/10-17	64 5,000	320,000
					<u>\$ 485,000</u>

The notes to the financial statements
are an integral part of this statement.

CARDINAL TEPATTI & Co. P.C.

11966 SWEETWATER DR.
GRAND LEDGE, MICHIGAN 48837

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Township Board
Clarence Township
27052 R Drive North
Albion, MI 49224

We have audited the general purpose financial statements of Clarence Township, Albion, Michigan as of and for the ended March 31, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Clarence Township, Albion, Michigan general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Randall L. Tepatti, *Registered Representative*

Securities offered through H.D. Vest Investment SecuritiesSM, Inc., Member SIPC. Advisory Services offered through H. D. Vest
Advisory ServicesSM, Non-bank subsidiaries of Wells, Fargo & Company
6333 North State Highway 161, Suite 400, Irving, Texas 75038 (972) 870-6000

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarence Township, Albion, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect the Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

We noted that a check register was not being maintained for the tax collection checking account. During the year checks were issued to taxing authorities in excess of collections which resulted in overdrafts in the checking account.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Carroll Tappin & Co. P.C.

Grand Ledge, Michigan
September 17, 2004

CARDINAL TEPATTI & Co. P.C.

11966 SWEETWATER DR.
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Honorable Board Members
Clarence Township
27052 R Drive North
Albion, MI 49224

We have examined the financial statements of Clarence Township, Albion, Michigan, for the year ended March 31, 2004, and have issued our report thereon dated September 17, 2004. As part of our examination, we reviewed and tested the Township's system on internal control to the extent we considered necessary to evaluate the system.

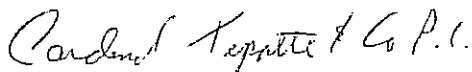
During our examination, we noted the following item which we wish to comment and make recommendation upon:

For the year ended March 31, 2004, Clarence Township disbursed funds in excess of those collected for the Clarence Township general fund, Calhoun County, and various public school districts. It was also noted that bank reconciliations were not being prepared for the current tax collection fund.

We recommend that the Township purchase Microsoft Excel and maintain check register on an excel worksheet. This worksheet should contain a total column and a column for each taxing authority for which you collect taxes. We recommend that you compare totals disbursed for each taxing authority with amounts collected for each taxing authority included on the township tax collection summaries. We encourage you to double check these items before issuing new checks for tax collections.

We recommend that the current tax collection bank accounts be reconciled monthly and comparisons made with monthly disbursements listed on the excel worksheets.

There are no other items which we wish to comment or make recommendation upon.



Cardinal Tepatti & Co., P.C.
Certified Public Accountants
September 17, 2004

Randall L. Tepatti, *Registered Representative*

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